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REM Group (Holdings) Limited
全達電器集團(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1750)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

The board (the "**Board**") of directors (the "**Directors**") of REM Group (Holdings) Limited (the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2020 (the "**Year 2020**"), together with comparative figures for the year ended 31 December 2019 (the "**Year 2019**"), as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	**2020** *HK$'000*	2019 *HK$'000*
Revenue	*4*	**116,457**	211,741
Cost of sales		**(114,370)**	(157,234)
Gross profit		**2,087**	54,507
Other income, gains and losses, net	*5*	**443**	689
Selling and distribution expenses		**(7,618)**	(10,276)
Administrative and other expenses		**(29,598)**	(29,258)
Finance costs	*6*	**(131)**	(108)
(Loss) profit before taxation	*7*	**(34,817)**	15,554
Income tax credit (expense)	*8*	**3,395**	(4,093)
(Loss) profit for the year		**(31,422)**	11,461
Other comprehensive income (expense) for the year:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**3,409**	(1,447)
Total comprehensive (expense) income for the year		**(28,013)**	10,014
(Loss) earnings per share (HK cents) – basic	*10*	**(1.75)**	0.64

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	**2020** **HK$'000**	2019 *HK$'000*
Non-current assets			
Property, plant and equipment		**27,257**	26,195
Right-of-use assets		**4,361**	4,590
Rental deposits		**23**	84
Contract assets	*11*	**11,342**	18,473
Deferred tax assets		**857**	–
		43,840	49,342
Current assets			
Inventories		**25,963**	30,485
Trade and other receivables	*12*	**59,015**	72,266
Contract assets	*11*	**17,723**	20,413
Financial assets at fair value through profit or loss		**699**	523
Amount due from a director		**18**	–
Tax recoverable		**2,020**	–
Restricted bank balance		**39**	–
Bank balances and cash		**80,327**	77,709
		185,804	201,396
Current liabilities			
Trade and other payables	*13*	**46,234**	34,084
Contract liabilities		**1,151**	1,516
Lease liabilities		**589**	1,337
Amount due to a director		**49**	56
Tax payable		**1,259**	5,228
		49,282	42,221
Net current assets		**136,522**	159,175
Total assets less current liabilities		**180,362**	208,517

	2020	2019
	HK$'000	*HK$'000*
Non-current liabilities		
Lease liabilities	**949**	504
Provision for long service payments	**790**	790
Deferred tax liabilities	**–**	587
	1,739	1,881
NET ASSETS	**178,623**	206,636
Capital and reserves		
Share capital	**18,000**	18,000
Share premium and reserves	**160,623**	188,636
TOTAL EQUITY	**178,623**	206,636

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability on 15 March 2017 under the Companies Law of the Cayman Islands and its shares were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 May 2018 (the "**Listing**"). The Company's immediate and ultimate holding company are Unique Best Limited and WAN Union Limited, respectively, which were companies incorporated in the British Virgin Islands. The addresses of the Company's registered office and the principal place of business are Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands and Unit 5, 4/F., Phase II Chai Wan Industrial City, No. 70 Wing Tai Road, Chai Wan, Hong Kong, respectively.

The principal activity of the Company is investment holding and its subsidiaries are primarily engaged in sales and manufacturing of low-voltage electrical power distribution and control devices.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and amendments to HKFRSs, Hong Kong Accounting Standards ("**HKAS**"), amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time which are mandatorily effective for the annual period beginning on or after 1 January 2020. Of these, the following developments are relevant to the Group's consolidated financial statements.

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKFRS 16	COVID-19-Related Rent Concessions (early applied)

The application of the new and amendments to HKFRSs in the current year had no material impact on the Group's financial performance and positions for the current and prior years and/or the disclosures set out in these consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of the reporting period.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents amounts received and receivable for the sales of low-voltage electrical power distribution and control devices, less discounts, if any, during the year.

The executive directors of the Company, being the chief operating decision maker (the "**CODM**"), regularly review revenue analysis by product types, including primarily low-voltage switchboard, local motor control panel, motor control centre, electrical distribution board and control box and electrical parts and replacements and by location of delivery to customers. The CODM considered the operating activities of sales of all products as a single operating segment. Other than revenue analysis, the CODM reviews the profit or loss for the year of the Group as a whole to make decisions about performance assessment and resources allocation. The operation of the Group constitutes one single operating segment under HKFRS 8 "Operating segments" and accordingly, no separate segment information is prepared. No segment assets and liabilities are presented as the CODM does not regularly review segment assets and liabilities.

An analysis of the Group's revenue by products for the year is as follows:

	2020	2019
	HK$'000	*HK$'000*
Low-voltage switchboard	**67,506**	92,111
Local motor control panel	**31,270**	84,901
Motor control centre	**8,755**	21,605
Electrical distribution board and control box	**3,418**	4,997
Electrical parts and replacements	**5,508**	8,127
	116,457	211,741

The Group sells all products directly to customers. Revenue is recognised when control of the goods has transferred or the services has performed, being when the goods or services have been delivered to the customers' specific location and customer acceptance has been obtained. The directors of the Company considered that the Group's revenue is recognised at a point in time.

Revenue from external customers, based on location of delivery to customers is as follows:

	2020	2019
	HK$'000	*HK$'000*
Revenue		
– Hong Kong	**92,566**	118,907
– Macau	**18,428**	11,603
– People's Republic of China ("**PRC**")	**5,463**	81,231
	116,457	211,741

Revenue from customers individually contributing over 10% of the total revenue of the Group of the corresponding years are as follows:

	2020	2019
	HK$'000	*HK$'000*
Customer A	**N/A***	83,441
Customer B	**20,301**	21,792
Customer C	**23,979**	N/A*

* The corresponding revenue did not contribute over 10% of the total revenue of the Group for the relevant years.

An analysis of the Group's non-current assets other than rental deposits, contract assets and deferred tax assets are presented below based on their physical geographical location:

	2020	2019
	HK$'000	*HK$'000*
Hong Kong	**6,905**	6,700
PRC	**24,713**	24,085
	31,618	30,785

5. OTHER INCOME, GAINS AND LOSSES, NET

	2020	2019
	HK$'000	*HK$'000*
Net exchange loss	**(218)**	(205)
Interest income	**218**	620
Increase in fair value changes of financial assets at fair value through profit or loss	**133**	83
Others	**310**	191
	443	689

6. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
Interest expenses on bank loan	**–**	2
Interest expenses on lease liabilities	**131**	106
	131	108

7. (LOSS) PROFIT BEFORE TAXATION

	2020	2019
	HK$'000	*HK$'000*
(Loss) profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment		
– cost of sales	**1,338**	800
– administrative and other expenses	**2,419**	1,808
Total depreciation of property, plant and equipment	**3,757**	2,608
Depreciation of right-of-use assets	**1,355**	1,169
Directors' emoluments		
– fees	**504**	504
– salaries and other allowance	**1,141**	1,104
– retirement benefit scheme contributions	**36**	36
	1,681	1,644
– other staff's salaries and other allowance	**27,020**	28,696
– other staff's retirement benefits scheme contributions	**1,741**	3,311
Total staff costs	**30,442**	33,651
Auditor's remuneration	**650**	1,300
Cost of inventories recognised as expenses	**107,968**	145,640
Expenses related to short-term leases	**138**	236
Net impairment losses on trade receivables and contract assets	**463**	776
Written off of bad debts	**1,134**	–
Government subsidies in relation to the Coronavirus Disease 2019 ("**COVID-19**") *(note)*	**2,267**	–

Note: COVID-19 related government subsidies from Hong Kong Special Administrative Region ("**HKSAR**") government which has been offset against the staff costs of the Group.

8. INCOME TAX (CREDIT) EXPENSE

	2020	2019
	HK$'000	*HK$'000*
The taxation (credit) charge comprises:		
Current tax		
Hong Kong Profits Tax		
– Provision for the year	**–**	408
– Over-provision in respect of prior years	**(1,547)**	–
PRC Enterprise Income Tax		
– Provision for the year	**–**	3,546
– Over-provision in respect of prior year	**(404)**	–
Deferred tax	**(1,444)**	139
Income tax (credit) expense	**(3,395)**	4,093

For the year ended 31 December 2019, the Hong Kong Profits Tax of the elected Hong Kong subsidiary is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% granted by the HKSAR government on the estimated assessable profits above HK$2 million. No provision for Hong Kong Profits Tax is provided for the year ended 31 December 2020 as the subsidiaries operating in Hong Kong have no assessable profits.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in PRC is 25%. No provision for Enterprise Income Tax ("**EIT**") is provided as the subsidiaries did not have any assessable profits subject to EIT in PRC during the year.

9. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during 2020, nor has any dividend been proposed since the end of the year (2019: nil).

10. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the year is based on the following:

	2020	2019
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) profit for the year attributable to owners of the Company for the purpose of basic (loss) earnings per share	**(31,422)**	11,461

	2020	2019
	'000	*'000*
Weighted average number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,800,000**	1,800,000

No diluted earnings per share is presented as there were no potential ordinary shares in issue during both years.

11. CONTRACT ASSETS

Contract assets represent the retention receivables of approximately HK$29,065,000 (2019: HK$38,886,000) net of allowance for expected credit losses of approximately HK$414,000 (2019: HK$561,000). Retention receivables are unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts, ranging from 6 months to 2 years from the date of delivery of finished goods to customers. The retention receivables are transferred to trade receivables based on the expiry of the defect liability period.

The following is an analysis of contract assets at the end of the reporting period:

	2020	2019
	HK$'000	*HK$'000*
Within one year	**17,723**	20,413
After one year	**11,342**	18,473
	29,065	38,886

As at 1 January 2019, contract assets are approximately HK$22,345,000.

12. TRADE AND OTHER RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**53,310**	61,309
Less: Allowance for credit losses	**(1,476)**	(822)
	51,834	60,487
Bill receivables *(Note)*	**–**	5,460
Other receivables, prepayment and deposits	**7,181**	6,319
	59,015	72,266

Note: All bill receivables by the Group are within a maturity period of less than one year.

As at 1 January 2019, trade receivables from contracts with customers are approximately HK$73,358,000.

Trade receivables

Payment terms with customers are mainly on credit together with deposits received in advance for new customers. The Group allows credit period with a range from 0 to 90 days (2019: 30 to 90 days) to its trade customers. A longer credit period may be granted to large or long established customers with good payment history. The following is an analysis of trade receivables by age, presented based on the invoice date.

	2020	2019
	HK$'000	*HK$'000*
0–30 days	**31,158**	35,181
31–60 days	**3,495**	11,093
61–90 days	**2,503**	3,678
91–180 days	**4,493**	3,751
181–365 days	**1,420**	2,289
Over 1 year	**8,765**	4,495
	51,834	60,487

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Recoverability of the existing customers is reviewed by management of the Group regularly.

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$19,198,000 (2019: HK$20,581,000) which are past due as at the reporting date. Out of the past due balances, approximately HK$12,940,000 (2019: HK$6,887,000) has been past due 90 days or more and the directors of the Company considered there has no default occurred as these trade receivables are still considered fully recoverable due to long term/on-going relationship and good repayment record from these customers.

13. TRADE AND OTHER PAYABLES

	2020	2019
	HK$'000	*HK$'000*
Trade payables	**35,357**	25,744
Bill payables	**4,507**	1,877
	39,864	27,621
Accruals and other payables	**6,370**	6,463
	46,234	34,084

The credit period granted by suppliers to the Group ranged from 0 to 75 days (2019: 30 to 75 days). The following is an ageing analysis of trade and bill payables presented based on the invoice dates at the end of each reporting period:

	2020	2019
	HK$'000	*HK$'000*
0–30 days	**15,610**	5,550
31–60 days	**8,673**	7,965
61–90 days	**7,190**	5,905
Over 90 days	**8,391**	8,201
	39,864	27,621

The Group's bill payables are denominated in USD.

The other payables mainly consist of accrual of staff salaries and benefits.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a renowned manufacturer and supplier of low-voltage electrical power distribution and control devices in Hong Kong, Macau and the PRC.

It was an exceptionally challenging year for the Year 2020 since the outbreak of COVID-19 epidemic. COVID-19 was officially declared a Public Health Emergency of International Concern by the World Health Organisation at the beginning of the year, bringing about a global economic downturn since early 2020 as all countries suffered from the pandemic.

The Group has experienced the greatest challenges and pressure in history in the Year 2020. The outbreak of the COVID-19 in 2020 has seen major effects on the Hong Kong economy, where operations of government departments, public and private companies were all affected as preventive measures shortened business hours and working from home policy to control the wide spread of COVID-19 were implemented, resulted in suspensions or delays of various workflows for construction projects and thereby having a significant impact on the Group's revenue in terms of deferral on delivery dates of the Group's products. The Group's business in the PRC has also suffered a heavy blow as a number of cities and districts across the PRC were brought into lockdown amid COVID-19 outbreak. Provincial travel restrictions were put in place in the PRC, hindering the manufacturing progress for construction projects and thus, further causing delay in delivery of the Group's products to the construction sites. The travelling restrictions and mandatory quarantine arrangements for travelling between the PRC and Hong Kong borders prevented the Group's management and staff from travelling to the PRC to oversee and improve the operations of the Group's factories. As a result, the Group was unable to fully convert the orders on hand into revenue during the Year 2020. Nevertheless, the Group did not experience any cancellation of orders due to the COVID-19 pandemic.

As a result of the above, the Group's revenue significantly decreased by approximately 45.0%. Revenue attributed to sales in Hong Kong, Macau and the PRC amounted to approximately HK$92.6 million, approximately HK$18.4 million and approximately HK$5.5 million, respectively, for the Year 2020 (Year 2019: approximately HK$118.9 million, approximately HK$11.6 million and approximately HK$81.2 million, respectively).

The Group recorded a loss for the year of approximately HK$31.4 million for the Year 2020, compared with a profit after tax of approximately HK$11.5 million for the Year 2019. The net loss after tax was mainly attributable to a significant decline in revenue and a much lower gross profit margin generated during the Year 2020.

MARKET PROSPECT

The Hong Kong economy and construction industry continued to experience negative growth during the Year 2020. COVID-19 pandemic is a major factor contributing towards the significant economic downturn globally as the disease is yet to be constrained up to the date of this announcement. However, the COVID-19 vaccinations are now available to control the spreading of COVID-19 and it is anticipated that the restrictions and measures put in place by the government of the PRC and Hong Kong to prevent and control the disease will be loosen for which the economies of the PRC and Hong Kong are expected to gradually recover overtime.

The Group expects that the competition within the market for low-voltage electrical power distribution and control devices remains fierce. In addition, the Group has also started to adopt more competitive pricing strategies since the Year 2020 in order to secure more new projects. Hence it is expected that the Group will generate lower level of gross profit margins when compared with those in prior years.

In response to the tough business environment, the Group has started to formulate extensive cost saving and cash preservation measures towards the end of the Year 2020, including negotiating general and specific project discounts with suppliers for bulk purchases of raw materials, avoid incurring unnecessary transportation costs by monitoring production and delivery schedules of the Group's customers, etc. and it is expected the effects from implementation of these cost saving measures will begin to emerge in the year 2021 as the Group's direct and overhead costs would be considerably reduced.

In view of the border restrictions and mandatory quarantine requirements, as oppose to frequent travelling between Hong Kong and the PRC, there will be arrangements for management to reduce travel frequency and to station for longer periods of time in the PRC in order to closely monitor the manufacturing and production process so as to ensure smooth and timely deliveries. The Group aims towards maximising utilisation of production caparity by excelling the project and production management, improving productive efficiency and reducing unnecessary costs incurred for late deliveries for the coming year 2021. This approach is expected to improve the gross profit margin of the group in the near future.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased significantly by approximately HK$95.3 million, or approximately 45.0%, from approximately HK$211.7 million for the Year 2019 to approximately HK$116.5 million for the Year 2020. Such decrease was directly attributable to the effects caused by the outbreak of COVID-19, which had led to prolonged suspension of the Group's production activities following the extended Chinese New Year holiday where the Group's factories were closed for over a month and production operations were suspended for even longer as the majority of workers were not able to return to work due to provincial travel restrictions. Furthermore, even after the production operations resumed, there were major disruptions to the delivery and production schedule as many of the Group's customers requested to defer delivery of the Group's products, which also led to idle some of production capacity during the Year 2020. All these factors contributed severe effects on the Group's revenue stream.

Cost of sales

The Group's cost of sales amounted to approximately HK$114.4 million for the Year 2020, representing a decrease of approximately 27.3% from approximately HK$157.2 million for the Year 2019. Such decrease was mainly due to decrease in the Group's revenue. Cost of sales mainly comprised of costs of raw materials and staff costs, which accounted for approximately 80.9% and 9.9%, respectively, of the Group's total cost of sales for the Year 2020 (Year 2019 : approximately 79.2% and 11.1%, respectively).

Gross profit/gross profit margin

The Group's gross profit decreased by approximately 96.2% from approximately HK$54.5 million for the Year 2019 to approximately HK$2.1 million for the Year 2020 as a result of the decrease in sales for the year. The overall gross profit margin of the Group decreased from approximately 25.7% for the Year 2019 to approximately 1.8% for the Year 2020. The decrease of gross profit margin was mainly due to (i) lower profit margin of Hong Kong and Macau projects in fierce market competition as a result of recent economic downturn; (ii) a comparatively higher proportion of cost of sales being attributable to fixed cost and indirect cost regardless of the level of sales, such as part of factory staff cost, depreciation of right-of-use assets for factory and depreciation of plants and machineries; and (iii) increase in fixed costs of a new factory, which are also included in the cost of sales.

Other income, gains and losses

The Group's other income, gains and losses slightly decreased by approximately HK$0.3 million, from approximately HK$0.7 million for the Year 2019 to approximately HK$0.4 million for the Year 2020. Such decrease was mainly attributable to a decrease in bank interest income of approximately HK$0.4 million for the Year 2020.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately HK$2.7 million, or approximately 25.9%, from approximately HK$10.3 million for the Year 2019 to approximately HK$7.6 million for the Year 2020 which was mainly attributable to a drop in transportation expenses of approximately HK$2.3 million as a result of a decrease in sales during the Year 2020.

Administrative and other expenses

The Group's administrative and other expenses increased by approximately HK$0.3 million, or approximately 1.2%, from approximately HK$29.3 million for the Year 2019 to approximately HK$29.6 million for the Year 2020. The increase was mainly due to the combined effects of (i) written off of bad debts recognised during the Year 2020 of approximately HK$1.1 million; (ii) decrease in professional fee of approximately HK$1.4 million; and (iii) impairment loss of approximately HK$0.5 million was recognised on trade receivables and contract assets for the Year 2020.

Finance costs

The Group's finance costs remained relatively stable at less than approximately HK$0.1 million for each of the Year 2020 and the Year 2019, which mainly represented interest expenses on lease liabilities for both years.

Taxation

The Group recorded an income tax credit of approximately HK$3.4 million for the Year 2020 as compared to an income tax expense of approximately HK$4.1 million for the Year 2019. As net losses were incurred for all companies within the Group, there were no assessable profits chargeable to Hong Kong Profits Tax nor PRC EIT during the year. The income tax credit mainly arose from deferred tax recognised for the unused tax losses from a Hong Kong subsidiary.

Loss for the year attributable to the owners of the Company

As a result of the significant drop in revenue and gross profit, there was a net loss for the year attributable to the owners of the Company of approximately HK$31.4 million for the Year 2020, as compared with a net profit for the year attributable to the owners of the Company of approximately HK$11.5 million for the Year 2019.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has funded its liquidity and capital requirements primarily through cash inflows from operating activities and proceeds received from its listing on Stock Exchange on 11 May 2018 (the "**Listing**"). There had been no change in the capital structure of the Group for the Year 2020.

As at 31 December 2020, the Group had cash and cash equivalents of approximately HK$80.3 million (31 December 2019: approximately HK$77.7 million). The increase is a net effect of (i) less settlement made to suppliers along with more receipts from customers which resulted in a rise in trade and bill payables of approximately HK$12.2 million and a drop in trade and bill receivables and contract assets of approximately HK$23.9 million as at year end; and (ii) the net loss generated for the Year 2020.

As at 31 December 2020, the working capital (current assets less current liabilities) and total equity attributable to owners of the Group were approximately HK$136.5 million (31 December 2019: approximately HK$159.2 million) and approximately HK$178.6 million (31 December 2019: approximately HK$206.6 million) respectively.

The Group did not have any interest-bearing borrowings and thus the computation of the gearing ratio (calculated based on the interests bearing liabilities, which excluded lease liabilities, dividend by the total equity as at the respective end of period and multiplied by 100%) is not applicable for both years.

TRADE AND BILL RECEIVABLES

The Group's average receivable turnover days for the Year 2020 increased to approximately 184.6 days as compared to that of approximately 120.1 days for the Year 2019. The main reason for the increase is higher outstanding balance of trade receivables as at 31 December 2020. This is due to a large quantity of products were delivered in the last quarter of the Year 2020. Despite a rise in the receivable turnover days, the settlement of outstanding trade receivables during the Year 2020 was satisfactory and although a written off of bad debt recognised of approximately HK$1.1 million and an impairment loss of approximately HK$0.4 million was recognised, the Group did not consider there would be default on its other trade receivables balance as at 31 December 2020.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITION OR DISPOSALS

There were no significant investments held, nor any material acquisitions or disposals during the Year 2020.

PLEDGE OF ASSETS

The Group's banking facilities were secured by corporate guarantees provided by the Company for unlimited amounts and certain leasehold land and buildings as at 31 December 2020 and 31 December 2019.

FUTURE PLAN FOR MATERIAL INVESTMENT AND CAPITAL ASSETS

Save as disclosed elsewhere in this announcement and in the prospectus of the Company dated 27 April 2018 (the "**Prospectus**"), the Group does not have other plans for material investments and capital assets as at 31 December 2020 and up to the date of this announcement.

CAPITAL COMMITMENT

The Group had the following capital commitment in respect of investment in a subsidiary and acquisition of property, plant and equipment at the end of the Year 2020 and the Year 2019.

	2020	2019
	HK$'000	*HK$'000*
Contracted, but not provided for		
– committed investment in a subsidiary	**1,000**	5,000
– acquisition of property, plant and equipment	**415**	–
	1,415	5,000

CONTINGENT LIABILITIES

At 31 December 2020, contingent liabilities not provided for in the year were as follows:

	At 31 December	
	2020	2019
	HK$'000	*HK$'000*
Performance bonds given to customers for due and proper performance of projects undertaken by the Group's subsidiaries	**738**	–

CURRENCY RISK

The Group has minimal exposure to foreign currency risk as most of its business transactions and assets and liabilities are principally denominated in the functional currencies of the relevant Group entities. As such, the Group currently does not have any foreign currency hedging policy in respect of foreign currency transactions and assets and liabilities as the Group's risk in foreign exchange is insignificant. However, the Group will continue to monitor closely its exposure to currency movement and take proactive measures.

PRINCIPAL RISK AND UNCERTAINTY

The Group's business operations are conducted in Hong Kong, Macau and the PRC. Accordingly, the Group's business, financial condition, results of operations and prospects are affected significantly by market risks and general economic, political and legal developments in these jurisdictions.

Furthermore, the projects undertaken by the Group are awarded on a project-by-project basis through tendering and hence are non-recurring in nature. There is no assurance that the Group's customers will continue to make purchases from the Group and failure to maintain the success rate for obtaining new projects could materially affect the Group's financial performance. Other principal risks include fluctuations in purchase prices of the Group's principal raw materials used in production and disruption to the operations of the Group's production facilities, both of which would adversely affect the Group's operations and financial performance.

The Group believes that risk management is the responsibility of everyone within the Group and has implemented a risk management system to mitigate the risks in daily operations. Risk management is led by the Directors at the top, who take both macro and micro economic conditions into account before making business decisions, and also aims to develop risk awareness and control responsibility as the Group's culture and the foundation of the Group's internal controls system.

RELATIONSHIPS WITH CUSTOMERS, SUPPLIERS AND EMPLOYEES

Management recognises that employees, customers, suppliers and business partners are the keys to the sustainable development of the Group. The Group maintains long-term relationships with its customers and suppliers, with most of its major customers and suppliers having established more than 10 years of working relationship with the Group, and some going over 15 years. The Group is generally invited by its customers to submit quotations or tenders for potential projects. The pricing on projects is determined by reference to the estimated costs plus a profit margin having taken into consideration the relationship with or potential prospect of the customer, project type and size, target completion date and the Group's production schedule and availability of resources. The Group endeavours to maintain its presence and keep abreast of opportunities in the market by continuous communication and working with customers and by responding to all tender invitations. The Group has built up a stable pool of suppliers over its operating history of over 20 years, which allows the Group to effectively maintain the quality of raw materials sourced. The Group assigns a project team to each project to follow the working progress of the project, ongoing communications with the customers as to their requests and to ensure that all safety and other applicable regulatory compliance requirements are met. The Group also maintains a very stable and experienced management team and an amicable long-term relationship with its employees. The Group ensures that all the employees are reasonably remunerated by regular review of their salary package. The Group's experienced management team, coupled with dedicated and skilled employees, are one of its key drives in delivering high quality and reliable products to customers in order to attain high customer satisfaction and maintain its fine reputation in the market.

COMPLIANCE WITH LAWS AND REGULATIONS

The operations of the Group are primarily carried out by the Company's subsidiaries in Hong Kong and the PRC, while its products are also delivered to Macau. The Group's establishment and operations accordingly shall comply with relevant laws and regulations in each of the above jurisdictions. During the Year 2020 and up to the date of this announcement, the Group had obtained all the registrations and certifications required for its business and operations in Hong Kong and the PRC, and had complied with all applicable laws and regulations in the above-mentioned jurisdictions in all material respect.

EMPLOYEES AND REMUNERATION POLICY

The Group had 238 full-time employees as at 31 December 2020 (31 December 2019: 255), among which 44 and 194 (31 December 2019: 45 and 210) were stationed in Hong Kong and the PRC, respectively. Most of the Group's employees were factory workers in the PRC. The total staff costs (including fees, salaries and other allowance, and retirement benefit scheme contributions for both Directors and other staff) for the Year 2020 were approximately HK$30.4 million (Year 2019: approximately HK$33.7 million). The Group believes that employees are important assets and their contribution and support are valued at all times. The remuneration policy and package of the Group's employees were periodically reviewed in order to attract and retain high caliber and competent staff. Apart from retirement benefit scheme contributions, salaries increment and discretionary bonuses are also awarded to employees according to industry benchmark, the assessment of individual performance as well as with reference to the performance of the Group. The remuneration policy in place as at 31 December 2020 was in line with the current legislation in the relevant jurisdictions, market conditions and performance of the staff and the Group. The Company has adopted a share option scheme as an incentive to Directors and employees.

USE OF PROCEEDS FROM THE LISTING

The shares of the Company have been listed on Stock Exchange since 11 May 2018 (the "**Listing Date**"). Net proceeds from the Listing were approximately HK$75.0 million (after deducting the underwriting commission and other listing expenses in connection to the Listing), which was different from the estimated net proceeds of HK$89.7 million as disclosed in the Prospectus. The difference of HK$14.7 million has been adjusted in the same manner and in the same proportion to the use of proceeds as shown in the Prospectus.

An analysis of the amounts utilised up to 31 December 2020 is set out below:

Description	**Net proceeds from Listing** *(HK$ million)*	**Net proceeds utilised up to 31 December 2020** *(HK$ million)*	**Unutilised net proceeds as at 31 December 2020** *(HK$ million)*	**Expected timeline for utilising the unutilised net proceeds** *(Note 1)*
(i) Acquisition of a factory in the PRC ("**New Factory**")				
– Consideration of the New Factory and the related commission, deed tax, stamp duty and professional fees	37.4	2.1 *(Note 2)*	35.3	By 30 June 2022 *(Note 5)*
– Acquisition of machineries and equipment	21.2	3.5 *(Note 3)*	17.7	By 31 December 2022 *(Note 6)*
(ii) Acquisition of machineries and equipment for the existing factory located in Dongguan ("**DG Factory**")	13.3	3.7 *(Note 4)*	9.6	By 31 December 2022 *(Note 7)*
(iii) General Working Capital	3.1	3.1	–	N/A
Total	75.0	12.4	62.6	

Notes:

1. The Group's plan for the use of net proceeds are all related to acquisitions to be made in the PRC and as such, had been put to a temporary halt primarily due to the outbreak of the COVID-19 in early 2020 which resulted in a series of precautionary and quarantine control measures being implemented in Hong Kong and the PRC, preventing a majority of the Hong Kong staff and the management from travelling to the PRC since the COVID-19 outbreak. As at the date of this announcement, there are indications that the COVID-19 might become under control soon as vaccinations are now available to the public. The expected timeline for utilising the remaining net proceeds is therefore prepared based on the assumption that the impacts of COVID-19 on the Group's business operations will be considerably lessen towards the latter half of year 2021. In view of the significant effects to the economy and business environment, the plan will be subject to changes based on the development of COVID-19 and its impact on the economic conditions in Hong Kong and the PRC.

2. Subsequent to the Listing, the Group has made a number of attempts to search for suitable factories for sale in the Humen Town for setting up the New Factory. However, the level of prices of the available factories in Humen Town were continuously rising. In view of this, the Directors have started searching for suitable factories in other areas nearby the DG Factory starting from the Year 2019. The Directors expected that the Group may not be able to locate an appropriate factory unit in the immediate future. Alternatively, the Group had leased a factory in Humen Town last year to cope with the job orders which the Group has secured after the Listing and also to further expand the Group's market share in the PRC so as to benefit from the growing low-voltage electrical power distribution and control devices market in the PRC. Up to 31 December 2020, the Company had utilised the relevant proceeds from the Listing of approximately HK$2.1 million for rental of a temporary factory in Humen Town and the related renovation costs.

3. Up to 31 December 2020, the Company had utilised the relevant proceeds from the Listing of approximately HK$3.5 million mainly for acquiring and setting up a new production line for copper bar work and automatic storage for the temporary factory in Humen Town.

4. Up to 31 December 2020, the Company had utilised the relevant proceeds from the Listing of approximately HK$3.7 million for acquiring machineries and equipment for the DG Factory.

5. The Group had been closely observing the property market in the PRC since the COVID-19 outbreak and will continue to closely pay attention to the availability of factories put up for sale nearby the DG Factory and their asking prices in order to seize the correct timing for acquisition of the New Factory. The Group expects to fully utilise the relevant proceeds for acquisition of the New Factory within one year after the cessation of the impacts of COVID-19 on the Group's business operations (which is assumed to be around the latter half of 2021), i.e. on or before 30 June 2022.

6. The Group has postponed the plan for acquisition of the New Factory as stated in Note 5 above and consequently has also deferred the progress of purchasing the remaining machineries and equipment for the New Factory. Due to limitation of floor size area of the rented Humen Town factory, the acquisition of the remaining machineries and equipment (including the production line for steel work and the automatic powder coating production line) for the New Factory will be executed after acquisition and completion of renovation for the New Factory, which will have sufficient floor area to accommodate all the new production lines. The Group expects to fully utilise the relevant proceeds within half a year after the acquisition and completion of renovation of the New Factory, which is estimated to be on or before 31 December 2022 (assuming that the impacts of COVID-19 on the Group's business operations will cease around the latter half of 2021).

7. All major acquisitions of machineries and equipment would require the Group's senior management responsible for overseeing the operation of the Group's factories (the "**Management**") to travel to the PRC to meet with the suppliers for a full understanding of the functioning of the machineries and equipment and also for physical observation during site visits to ensure the suitability to the Group's factory and existing production line. However, due to the border restrictions and the mandatory quarantine requirement, the Management have not travelled to the PRC since the outbreak of the COVID-19 pandemic. Therefore, the Group have postponed the progress of purchasing the machineries and equipment for the DG Factory. The Group expects the plan for acquisition of machineries and equipment for the DG Factory will be resumed once the travelling restrictions are loosened and the acquisitions shall then be made in different phases to minimise disruption to the Group's production. Therefore the Group expects to fully utilise the relevant proceeds on or before 31 December 2022. In the meantime, the Group shall perform all the relevant foundation work required to prepare the DG Factory for accommodation of the new machineries and equipment so as to speed up the progress of expanding the production line upon actual acquisition of the machineries and equipment.

As at the date of this announcement, save as disclosed herein, the Directors do not anticipate any material change to the intended use of the net proceeds except that in light of the material change in market and economic condition, the Group will utilise the remaining balance of the net proceeds in a conservative manner.

The unutilised net proceeds of approximately HK$62.6 million were placed with a licensed bank in Hong Kong.

EVENTS AFTER THE REPORTING PERIOD

There have been no other material events occurring after 31 December 2020 and up to the date of this announcement.

SHARE OPTION SCHEME

On 23 April 2018, the Company adopted the share option scheme (the "**Share Option Scheme**") as incentive or reward for contributions that the eligible participants have made or may make to the Group. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Statutory and General Information — D. Share Option Scheme" in Appendix V to the Prospectus.

There were no share options outstanding under the Share Option Scheme nor were any share options granted, agreed to be granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption date and up to the date of this announcement.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rule as its own code of conduct regarding securities transactions of the Company by the Directors.

Having made specific enquiry of all Directors, they confirmed that they had complied with the required standard set out in the Model Code regarding securities transactions by Directors during the Year 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board recognises that transparency and accountability are important to the Company as a listed company. The Company is committed in establishing and maintaining good corporate governance practices and procedures. The Directors believe that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture in return to the benefits of the shareholders of the Company as a whole.

The Board has adopted and complied with the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules. The Board is of the opinion that the Company has complied with all the code provisions of the CG Code for the Year 2020.

The Board will continue reviewing the Company's corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements from time to time, and to meet the rising expectation on the Company.

DIVIDEND

The Board does not recommend the payment of a final dividend for the Year 2020 (Year 2019: Nil).

REVIEW BY AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are, among other things, to review and supervise the financial reporting process, risk management and internal control system of the Group, oversee the audit process and select external auditors and assess their independence and qualifications. The Audit Committee consists of two independent non-executive Directors namely Ms. Ng Ching Ying (the chairlady) and Mr. Cheng Sum Hing and one non-executive Director namely Mrs. Kan Wan Wai Yee Mavis.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, risk management, internal control and financial reporting matters, including review of the Group's consolidated financial statements for the Year 2020 and this results announcement.

SCOPE OF WORK OF INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Year 2020 included in this preliminary results announcement have been agreed by the Group's independent auditor, Wellink CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Wellink CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently, no assurance has been expressed by Wellink CPA Limited on this preliminary results announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND DESPATCH OF ANNUAL REPORT

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.rem-group.com.hk). The annual report will also be available at the above websites and will be despatched to the shareholders of the Company in due course.

By Order of the Board
REM Group (Holdings) Limited
Wan Man Keung
Chairman and Executive Director

Hong Kong, 30 March 2021

As at the date of this announcement, the executive Directors are Mr. Wan Man Keung and Mr. Leung Ka Wai, the non-executive Director is Mrs. Kan Wan Wai Yee Mavis, and the independent non-executive Directors are Mr. Ng Chi Keung Alex, Mr. Cheng Sum Hing and Ms. Ng Ching Ying.